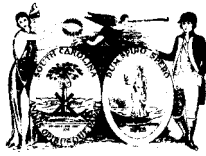


State of South Carolina



Office of the State Auditor

1401 MAIN STREET, SUITE 1200
COLUMBIA, S.C. 29201

THOMAS L. WAGNER, JR., CPA
STATE AUDITOR

(803) 253-4160
FAX (803) 343-0723

October 24, 2002

Mr. Craig G. DeKany, Reimbursement Manager
HCR – Manor Care
Post Office Box 10086
Toledo, Ohio 43699-0086

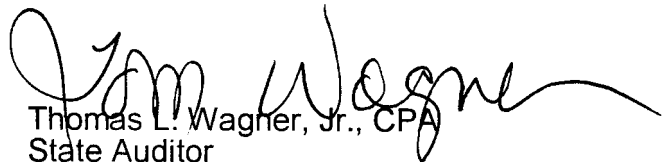
Re: AC# 3-ELH-J0 – Health Care & Retirement Corporation of America
d/b/a Heartland Health Care Center - Charleston

Dear Mr. DeKany:

The accompanying report has been prepared by our office based on your Medicaid Financial and Statistical Report submitted to the Department of Health and Human Services for the cost report period October 1, 1999 through September 30, 2000. That report was used to set the rate covering the contract period beginning October 1, 2001.

We are recommending that the Department of Health and Human Services certify an accounts receivable to recover amounts due as a result of the rate change shown on Exhibit A. You will be notified of repayment terms by that Agency.

If you take exception to this report in any manner, you have the right to appeal in accordance with the Code of Laws of South Carolina, 1976 as amended, Title 44, and Department of Health and Human Services Regulation R.126-150, and you must respond in writing within thirty (30) calendar days of the date of this letter. This written response must address the specific items in the report being appealed, and must be directed to the Appeals and Hearings, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina 29202-8206. Any correspondence should include the control number appearing on Exhibit A of this report.


Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/cwc

cc: Ms. Brenda L. Hyleman
Mr. Jeff Saxon
Mr. Joseph P. Hayes

**HEALTH CARE & RETIREMENT CORPORATION
OF AMERICA D/B/A HEARTLAND HEALTH
CARE CENTER - CHARLESTON**

HANAHAN, SOUTH CAROLINA

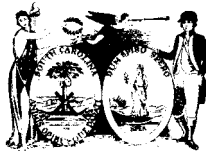
**CONTRACT PERIOD
BEGINNING OCTOBER 1, 2001
AC# 3-ELH-J0**

**AGREED-UPON PROCEDURES REPORT
ON CONTRACT
FOR
PURCHASE OF NURSING CARE SERVICES
WITH
STATE OF SOUTH CAROLINA
DEPARTMENT OF HEALTH AND HUMAN SERVICES**

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

September 23, 2002

Department of Health and Human Services
State of South Carolina
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the South Carolina Department of Health and Human Services, solely to compute the rate change and related adjusted reimbursement rate to be used by the Department in determining the reimbursement settlement with Health Care & Retirement Corporation of America d/b/a Heartland Health Care Center - Charleston, for the contract period beginning October 1, 2001, and for the twelve month cost report period ended September 30, 2000, as set forth in the accompanying schedules. The management of Health Care & Retirement Corporation of America d/b/a Heartland Health Care Center - Charleston is responsible for the Financial and Statistical Report for Nursing Homes and supporting accounting and statistical records. This agreed-upon procedures engagement was performed in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

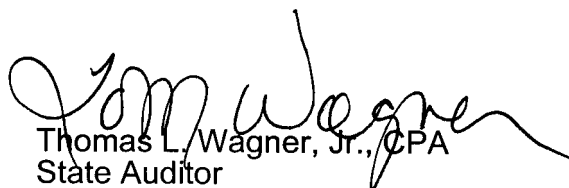
The procedures and the associated findings are as follows:

1. We tested selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by Health Care & Retirement Corporation of America d/b/a Heartland Health Care Center - Charleston, to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the provider. Our findings as a result of these procedures are presented in the Adjustment Report, Summary of Costs and Total Patient Days, and Cost of Capital Reimbursement Analysis sections of this report.
2. We recomputed the Computation of Reimbursement Rate using the adjusted costs and calculated the rate change in accordance with the provisions of the contract between the Department of Health and Human Services and Health Care & Retirement Corporation of America d/b/a Heartland Health Care Center - Charleston dated as of October 1, 2001 as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computation of Adjusted Reimbursement Rate sections of this report.

Department of Health and Human Services
State of South Carolina
September 23, 2002

These agreed-upon procedures do not constitute an audit of financial statements or any part thereof, the objective of which is the expression of an opinion on the financial statements or a part thereof. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the South Carolina Department of Health and Human Services and is not intended to be and should not be used by anyone other than the specified party.



Thomas L. Wagner, Jr., CPA
State Auditor

HEARTLAND HEALTH CARE CENTER - CHARLESTON

Computation of Rate Change
For the Contract Period
Beginning October 1, 2001
AC# 3-ELH-J0

	Beginning <u>10/01/01</u>
Interim Reimbursement Rate (1)	\$108.41
Adjusted Reimbursement Rate	<u>105.46</u>
Decrease in Reimbursement Rate	\$ <u><u>2.95</u></u>

- (1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated January 25, 2002

HEARTLAND HEALTH CARE CENTER - CHARLESTON
Computation of Adjusted Reimbursement Rate
For the Contract Period Beginning October 1, 2001
AC# 3-ELH-J0

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$ 64.81	\$50.50	
Dietary		11.14	11.36	
Laundry/Housekeeping/Maintenance		<u>7.66</u>	<u>9.21</u>	
Subtotal	\$ <u>-</u>	83.61	71.07	\$ 71.07
Administration & Medical Records	\$ <u>-</u>	<u>17.18</u>	<u>12.38</u>	<u>12.38</u>
Subtotal		100.79	<u>\$83.45</u>	83.45
<u>Costs Not Subject to Standards:</u>				
Utilities		2.96		2.96
Special Services		.27		.27
Medical Supplies & Oxygen		3.03		3.03
Taxes and Insurance		1.87		1.87
Legal Fees		<u>-</u>		<u>-</u>
TOTAL		<u>\$108.92</u>		91.58
Inflation Factor (3.80%)				3.48
Cost of Capital				7.87
Cost of Capital Limitation				-
Profit Incentive (Max. 3.5% of Allowable Cost)				-
Cost Incentive				-
Effect of \$1.75 Cap on Cost/Profit Incentives				-
Nurse Aide Staffing Add-On 10/01/00				<u>2.53</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$105.46</u>

HEARTLAND HEALTH CARE CENTER - CHARLESTON
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 2000
AC# 3-ELH-J0

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
General Services	\$2,251,171	\$ 2,602 (4)	\$ -	\$2,253,773
Dietary	389,383	-	1,854 (9)	387,529
Laundry	54,269	-	-	54,269
Housekeeping	114,266	639 (7)	639 (8)	114,266
Maintenance	97,803	536 (7)	535 (8)	97,804
Administration & Medical Records	595,949	362 (4) 1,391 (4) 2,406 (7)	2,374 (8) 238 (9)	597,496
Utilities	103,635	565 (7)	734 (6) 561 (8)	102,905
Special Services	9,359	129 (9)	-	9,488
Medical Supplies & Oxygen	122,498	-	5,974 (4) 4,265 (5) 5,422 (6) 1,573 (9)	105,264
Taxes and Insurance	149,370	801 (7)	84,853 (3) 348 (8)	64,970
Legal Fees	-	-	-	-

HEARTLAND HEALTH CARE CENTER - CHARLESTON
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 2000
AC# 3-ELH-J0

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
Cost of Capital	270,038	23,548 (2) 2,220 (7)	19,062 (1) 1,289 (8) 1,756 (10)	273,699
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Subtotal	4,157,741	35,199	131,477	4,061,463
Ancillary	165,332	-	-	165,332
Nonallowable	781,150	19,062 (1) 84,853 (3) 1,619 (4) 4,265 (5) 5,746 (8) 3,536 (9) 1,756 (10)	23,548 (2) 7,167 (7)	871,272
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Operating Expenses	<u>\$5,104,223</u>	<u>\$156,036</u>	<u>\$162,192</u>	<u>\$5,098,067</u>
Total Patient Days	<u>34,775</u>	<u>-</u>	<u>-</u>	<u>34,775</u>
Total Beds	<u>96</u>			

HEARTLAND HEALTH CARE CENTER - CHARLESTON

Adjustment Report
Cost Report Period Ended September 30, 2000
AC# 3-ELH-J0

ADJUSTMENT <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Accumulated Depreciation	\$285,578	
	Other Equity	456,086	
	Nonallowable	19,062	
	Fixed Assets		\$741,664
	Cost of Capital		19,062
	To adjust fixed assets and related depreciation		
	HIM-15-1, Section 2304		
	State Plan, Attachment 4.19D		
2	Cost of Capital	23,548	
	Nonallowable		23,548
	To adjust depreciation expense to comply with capital cost policy		
	State Plan, Attachment 4.19D		
3	Nonallowable	84,853	
	Taxes and Insurance		84,853
	To adjust liability insurance expense		
	HIM-15-1, Section 2304		
	State Plan, Attachment 4.19D		
4	Restorative	2,602	
	Administration	362	
	Medical Records	1,391	
	Nonallowable	1,619	
	Medical Supplies		5,974
	To reclassify expense to the proper cost center and disallow expense due to lack of documentation		
	HIM-15-1, Section 2304		
	DH&HS Expense Crosswalk		
5	Nonallowable	4,265	
	Medical Supplies		4,265
	To disallow expense due to lack of documentation		
	HIM-15-1, Section 2304		

HEARTLAND HEALTH CARE CENTER - CHARLESTON
Adjustment Report
Cost Report Period Ended September 30, 2000
AC# 3-ELH-J0

ADJUSTMENT <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
6	Retained Earnings	6,156	
	Utilities		734
	Medical Supplies		5,422
	To properly charge expense applicable to the prior period HIM-15-1, Section 2302.1		
7	Housekeeping	639	
	Maintenance	536	
	Administration	2,406	
	Utilities	565	
	Taxes and Insurance	801	
	Cost of Capital	2,220	
	Nonallowable		7,167
	To reverse DH&HS adjustment to remove indirect cost applicable to a non-reimbursable cost center HIM-15-1, Section 2102.3 State Plan, Attachment 4.19D		
8	Nonallowable	5,746	
	Housekeeping		639
	Maintenance		535
	Administration		2,374
	Utilities		561
	Taxes and Insurance		348
	Cost of Capital		1,289
	To remove indirect cost applicable to a non-reimbursable cost center HIM-15-1, Section 2102.3 State Plan, Attachment 4.19D		
9	Special Services	129	
	Nonallowable	3,536	
	Dietary		1,854
	Administration		238
	Medical Supplies		1,573
	To remove special (ancillary) services reimbursed by Medicare State Plan, Attachment 4.19D		

HEARTLAND HEALTH CARE CENTER - CHARLESTON
Adjustment Report
Cost Report Period Ended September 30, 2000
AC# 3-ELH-J0

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
10	Nonallowable Cost of Capital	1,756	1,756
	To adjust capital return State Plan, Attachment 4.19D		
		<hr/>	<hr/>
	TOTAL ADJUSTMENTS	<u>\$903,856</u>	<u>\$903,856</u>

Due to the nature of compliance reporting, adjustment descriptions and references contained in the preceding Adjustment Report are provided for general guidance only and are not intended to be all-inclusive.

HEARTLAND HEALTH CARE CENTER - CHARLESTON
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 2000
AC# 3-ELH-J0

Original Asset Cost (Per Bed)	\$ 15,618
Inflation Adjustment	<u>2.3848</u>
Deemed Asset Value (Per Bed)	37,246
Number of Beds	<u>96</u>
Deemed Asset Value	3,575,616
Improvements Since 1981	282,245
Accumulated Depreciation at 9/30/00	<u>(1,022,625)</u>
Deemed Depreciated Value	2,835,236
Market Rate of Return	<u>.058</u>
Total Annual Return	164,444
Return Applicable to Non-Reimbursable Cost Centers	(876)
Allocation of Interest to Non-Reimbursable Cost Centers	<u>699</u>
Allowable Annual Return	164,267
Depreciation Expense	110,807
Amortization Expense	-
Capital Related Income Offsets	(86)
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>(1,289)</u>
Allowable Cost of Capital Expense	273,699
Total Patient Days (Actual)	<u>34,775</u>
Cost of Capital Per Diem	\$ <u>7.87</u>

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